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C O N F I D E N T I A L SECTION 01 OF 02 YEREVAN 000429

SIPDIS  
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FOR MILLENNIUM CHALLENGE BOARD FROM COM JOSEPH PENNINGTON  
STATE FOR S, F, D, P, E, EUR/FO, EUR/CARC, EUR/ACE, EEB, DRL  
USAID FOR ADMINISTRATOR  
WHITE HOUSE FOR USTR  
MCC FOR CEO DANILOVICH  
NSC FOR MARIA GERMANO  
TREASURY FOR SECRETARY AND MCC-RELATED POLICY STAFF

E.O. 12958: DECL: 05/26/2018  
TAGS: [PREL](#) [EAID](#) [PGOV](#) [PHUM](#) [KDEM](#) [AM](#)  
SUBJECT: LOOKING AHEAD ON ARMENIA'S MCC -- SILENCE IS DEADLY

REF: A. YEREVAN 274  
[1](#)B. STATE 33062 (NOTAL)  
[1](#)C. YEREVAN 411  
[1](#)D. YEREVAN 426  
[1](#)E. 06 YEREVAN 640  
[1](#)F. 06 YEREVAN 662  
[1](#)G. YEREVAN 418

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Classified By: CDA Joseph Pennington, reasons 1.4 (b,d)

[1](#)1. (C) SUMMARY: Armenian leaders need a sharp wake-up call from the MCC Board that authorities' half-baked, semi-reforms and continuing persecution of political rivals is a recipe for MCC termination. Clear, consistent messages from Washington remain critical to preserving credibility and Armenian understanding of the seriousness of Armenia's badly failing democratic and human rights performance (see Ref D status update). The June MCC Board meeting should not pass without some public warning to Armenian officials. While we support (per Ref A) waiting until September before making any irrevocable decision on terminating MCC in Armenia, we continue to believe a final period of probation -- even if merely semantic -- should be announced after the MCC Board's June meeting. Armenian leaders have an insufficient appreciation that Armenia's "Ruling Justly" performance is deeply in the red. We urge that Armenia should be a formal agenda item for the June MCC Board meeting, and recommend that the Board issue a public statement that Armenia is currently in default on its commitments and on a path for termination. Furthermore, MCC must maintain its "hold" on the \$50 million roads contract now pending. Allowing that contract to go forward would send a mixed signal that could prove counter-productive. END SUMMARY

[1](#)2. (C) Armenia's latest MCC "Scorecard" showed that it was failing nine out of 17 indicators, including five out of six "Ruling Justly," and the all-important corruption indicator. While it is true that some of these failings may be considered technical, since Armenia graduated to a higher economic class (based on GDP) and thus found itself compared against tougher competition, it is also true that Armenia was already trending downward in the Ruling Justly category, even when compared against the lower competition group. This was the case even before the backward-looking indicators had a

chance to take note of the negative political and human rights developments of 2007/2008. (NOTE: It bears remembering that the May 2007 election was itself not a resounding success, but a mediocre accomplishment in comparison with previous, flawed elections. See Refs E and F. END NOTE)

13. (C) Our recommendation (Ref A) that the June Board meeting should -- absent dramatic progress which we have not seen -- announce a formal suspension of Armenia's MCC Compact was predicated on the assumption that suspension of MCC was not tantamount to termination, and that a limited duration suspension would not jeopardize implementation of the program should the GOAM turn the situation around. We understand, however, that MCC's definition of suspension is rather less flexible than we had understood. Given that suspension of MCC in Armenia would amount to de facto termination of the program, we urge the MCC Board to find a way to communicate the message to the Armenian government and people that Armenia is currently out of compliance with U.S. expectations on the eligibility indicators, especially in the "Ruling Justly" category, and that Armenia should expect termination by the September Board meeting unless it takes more dramatic steps than we have seen to change course. We consider it important that Armenian leaders, political forces, civil society, and the general public understand that the continuing status quo does not mean that the crisis has passed in terms of Armenia's MCC eligibility. A public statement following the June Board meeting would reaffirm our earnest desire for the program to continue, but make clear that for that to happen Armenia must act quickly to get its house in order. This would be consistent with our strategy of measured escalation in our diplomatic messages to Armenia's leaders of the urgent need for action, including

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Embassy advocacy, MCC CEO Danilovich's letters to Presidents Kocharian and Sargsian, EUR DAS Bryza's private and public statements, EUR/ACE Assistance Coordinator Tom Adams' pointed messages to the GOAM (Ref G), and most recently CODEL Schiff's (septel to follow) affirmation that Congress, too, expects Armenia to uphold the Ruling Justly standards for MCC.

14. (C) It is also critical that MCC not/not approve the signing of the upcoming \$50 million roads construction package of contracts now nearly ready for implementation. This package of contracts is a major milestone in the Compact implementation, and allowing it to go forward (inevitably the GOAM would have a splashy signing ceremony as part of its public relations campaign to assure Armenians that everything is normal with MCC) would send the worst kind of mixed signal about our seriousness to hold Armenians accountable for performance.

15. (C) SUGGESTED TEXT OF PUBLIC STATEMENT BY THE MCC BOARD:

MCC Board Warns Armenia of Possible Compact Termination if Democratic Progress Not Restored

The Millennium Challenge Corporation Board, during its June XX regular session, reviewed Armenia's performance on the critical democracy and human rights norms measured by MCC's Ruling Justly indicators. The Board remains very concerned by Armenia's performance during the February 19, 2008, presidential election period, and by its violent aftermath which tragically led to the loss of ten lives. The Board is particularly concerned by the ongoing persecution of dozens of opposition supporters who have been arrested and held by the Armenian government on questionable charges. The fact that no government or pro-government political party officials, police or security forces personnel have been seriously investigated for their part in the election problems or subsequent violence, and that investigations and prosecutions have almost exclusively targeted the government's political rivals does not give the Board -- or

the Armenian people -- confidence in objective rule of law in Armenia.

We have always made clear that the Millennium Challenge Account is a performance-based program; both an incentive and a reward for governments that demonstrate serious commitment to reform in Ruling Justly, Investing in People, and Economic Freedom. Compact participants are expected not only to maintain, but continue to show forward progress in these important indicators. Armenia's recent performance shows sharply backward movement.

The Board will once again review Armenia's performance during the upcoming September Board meeting. It is our sincere hope that by that time Armenia will have shown significant new progress to correct the serious political and human rights problems that have emerged so far this year, and that the Board will be able to allow Armenia's Compact to continue.

The MCC Board and the United States Government remain deeply committed to our long-standing friendship with Armenia and its people, and cherish the hope that the \$236 million MCC Compact will be an ongoing part of the deep friendship between our countries.

END TEXT

16. (C) Post suggests that this statement be signed by Secretary Rice as Chair of the MCC Board, to further heighten the message. We recommend that the statement be delivered to the GOAM, in Washington and in Yerevan, 24 hours prior to being posted publicly.  
PHILLIPS